

Message Text

CONFIDENTIAL

PAGE 01 BEIRUT 03858 01 OF 04 081402Z

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 DODE-00 IGA-02 AGRE-00 FAA-00 DOTE-00 /092 W
-----032554 081454Z /47

R 081238Z AUG 77

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 4826

INFO AMEMBASSY AMMAN

AMEMBASSY ATHENS

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEL AVIV

USDOC WASHDC

C O N F I D E N T I A L SECTION 1 OF 4 BEIRUT 3858

DEPT ALSO PASS AID, EXIMBANK

E.O. 11652: GDS

TAGS: EALR ECON EFIN LE

SUBJ: SOME THOUGHTS ON LEBANESE ECONOMY

1. SUMMARY:

A. FIGHTING IN 1975-76 CAUSED SIGNIFICANT MATERIAL DAMAGE,
BUT MORE IMPORTANTLY DEALT BLOW TO CONFIDENCE IN FUTURE OF
LEBANESE ECONOMY. SINCE END OF FIGHTING, COMMERCIAL ACTIVITY
HAS PICKED UP CONSIDERABLY AND RESERVE POSITION HAS REMAINED
STRONG. BUT THERE HAS BEEN VERY LITTLE INVESTMENT ACTIVITY,
AND INFLATION IS SUBSTANTIAL.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BEIRUT 03858 01 OF 04 081402Z

B. PUBLIC FACILITIES ARE PROVIDING SERVICES, BUT REPAIR
ARE NEEDED. PROSPECTS ARE GOOD FOR FINANCING OF WELL-DEFINED
PROJECTS IN PUBLIC SECTOR, BUT LIKELIHOOD OF MASSIVE
FOREIGN AID TO PRIVATE SECTOR IS SMALL.

C. GOL HAS PASSED ECONOMIC LEGISLATION AND IS COL-

LECTING TAXES. BUT GOL HAS FAILED TO DEVELOP COMPREHENSIVE RECONSTRUCTION STRATEGY AND BEEN RELUCTANT TO TAKE RISKS NECESSARY TO STIMULATE PRIVATE DEVELOPMENT. INDIVIDUAL RATHER THAN GOVERNMENT INITIATIVE WILL PROBABLY BE RESPONSIBLE FOR EVENTUAL RESUMPTION OF MORE NORMAL ECONOMIC ACTIVITY.

2. DAMAGES:

A. PRIME MINISTER HOSS HAS ESTIMATED THAT "DIRECT MATERIAL DAMAGES" DURING FIGHTING AMOUNTED TO LL 7.5 BILLION (\$2.5 BILLION). AN ECONOMIST OF ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT, HOWEVER, HAS SAID DAMAGE PROBABLY AMOUNTED TO NO MORE THAN ONE BILLION DOLLARS. GEORGE ASSEILY, FORMER PRESIDENT OF ASSOCIATION OF LEBANESE INDUSTRIALISTS, BELIEVES DIRECT DAMAGE TO FIXED INDUSTRIAL INVESTMENTS AMOUNTED TO ONLY LL 500 MILLION (\$167 MILLION), OR 20 PERCENT OF TOTAL FIXED INDUSTRIAL INVESTMENTS OF LL 2.5 BILLION (\$833 MILLION).

B. IN ANY EVENT, NO RELIABLE DAMAGE SURVEY HAS BEEN MADE, AND ALL FIGURES ARE LARGELY GUESSES. MOREOVER, MOST SERIOUS BLOW DEALT LEBANESE ECONOMY WAS NOT MATERIAL DAMAGE, BUT LOSS OF CONFIDENCE IN FUTURE. LEBANON IS TRADITIONALLY SERVICE ECONOMY, WHICH HAS DEPENDED AS MUCH ON SYMPATHETIC BUSINESS CLIMATE AS ON

CONFIDENTIAL

PAGE 03 BEIRUT 03858 01 OF 04 081402Z

PHYSICAL FACILITIES. IN 1974, FOR EXAMPLE, SERVICES ACCOUNTED FOR ABOUT 70 PERCENT OF COUNTRY'S GROSS DOMESTIC PRODUCT, INDUSTRY ABOUT 21 PERCENT, AND AGRICULTURE ABOUT NINE PERCENT.

3. CURRENT ACTIVITY.

A. WE ARE UNABLE TO ESTIMATE WITH ANY CONFIDENCE LEBANON'S CURRENT GROSS NATIONAL PRODUCT, WHICH WAS ABOUT \$3.6 BILLION IN 1974. (WORLD BANK SAYS REAL ANNUAL GROSS DOMESTIC PRODUCT IS NOW ROUGHLY 30-40 PERCENT BELOW ITS 1974 LEVEL.) NEVERTHELESS, COMMERCIAL ACTIVITY AND DOMESTIC TRADE HAVE PICKED UP CONSIDERABLY SINCE END OF MOST MAJOR FIGHTING IN NOVEMBER, 1976. JOSEPH OUGHOURLIAN, ACTING GOVERNOR OF CENTRAL BANK, ESTIMATES PRESENT COMMERCIAL ACTIVITY AT 60-70 PERCENT OF PRE-WAR LEVEL, AS EVIDENCED BY NEW SHOPS OPENING, MORE ADVERTISING IN NEWSPAPERS, RESUMPTION OF SOME CONSTRUCTION ACTIVITY, AND INCREASED VEHICULAR TRAFFIC. (HE SAYS THAT BECAUSE OF DESTRUCTION OF DOWNTOWN BEIRUT, HOWEVER, COMMERCIAL ACTIVITY HAS BECOME "DECENTRALIZED," DEVELOPING SEPARATELY IN EASTERN AND

WESTERN SECTORS OF CITY.) SOME CONSTRUCTION BEGUN BEFORE THE WAR HAS RESUMED, AND AN ARAB-AMERICAN FIRM HAS RECENTLY DECIDED TO BUILD NEW MERIDIEN HOTEL IN BEIRUT.

B. AUB AGRICULTURAL PROFESSOR FAQZI AL-HAJ ESTIMATES THAT REAL VALUE OF AGRICULTURAL PRODUCTION IN 1977 WILL BE VERY ROUGHLY 60 PERCENT OF REAL VALUE IN 1974. ACCORDING TO LEBANESE BUSINESSMEN AND OFFICIALS, SIZES OF SOME CROPS ALREADY HARVESTED THIS YEAR AS COMPARED TO SIZES IN 1974 ARE AS FOLLOWS: BARLEY, 43 PERCENT; WHEAT, 90 PERCENT; APRICOTS, 200 PERCENT; BANANAS, 50 PERCENT; CHERRIES, 50 PERCENT; GRAPEFRUITS, 80 PERCENT; ORANGES, 100 PERCENT; AND TANGERINES, 100 PERCENT.
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 BEIRUT 03858 01 OF 04 081402Z

PERCENT. SAME SOURCES PROJECT SIZES OF SOME OTHER CROPS NOT YET COMPLETELY HARVESTED THIS YEAR AS COMPARED TO 1974 AS FOLLOWS: APPLES, 70 PERCENT; FIGS, 120 PERCENT; GRAPES, 90 PERCENT; LEMONS, 60 PERCENT; PEACHES, 110 PERCENT; OLIVES, 20 PERCENT; TOBACCO, 50 PERCENT; EGGS, 30 PERCENT; AND BROILER CHICKENS, 30 PERCENT.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BEIRUT 03858 02 OF 04 081418Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 DODE-00 IGA-02 AGRE-00 FAA-00 DOTE-00 /092 W
-----032758 081454Z /47

R 081238Z AUG 77
FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 4827
INFO AMEMBASSY AMMAN
AMEMBASSY ATHENS
AMEMBASSY CAIRO
AMEMBASSY DAMASCUS
AMEMBASSY JIDDA

AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TEL AVIV
USDOC WASHDC

C O N F I D E N T I A L SECTION 2 OF 4 BEIRUT 3858

I. ACCORDING TO ASSEILY, REAL VALUE OF INDUSTRIAL PRODUCTION FOR 1977 IS LIKELY TO BE 60 PERCENT OF PRODUCTION IN 1974. HE NOTES CURRENT INDUSTRIAL PRODUCTION VARIES BY SECTOR. BUILDING MATERIALS INDUSTRY (CEMENT, ASBESTOS, CERAMICS, EXTRUDED ALUMINUM) IS NOW PRODUCING AT 100 PERCENT OF PRE-WAR LEVEL IN REAL-VALUE TERMS, BECAUSE IT HAS RETAINED GOOD EXPORT MARKET. PROCESSED FOOD AND PLASTICS, HOWEVER, ARE ONLY AT 60 TO 70 PERCENT. TEXTILE INDUSTRY IS AT 40 PERCENT OF PRE-WAR LEVEL, BECAUSE OF REDUCTION OF DOMESTIC MARKET AND EMPLOYEES' FEAR OF WORKING AT NIGHT.

4. CONVERTIBLE CURRENCY AND GOLD RESERVES.
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BEIRUT 03858 02 OF 04 081418Z

A. LEBANON'S RESERVE POSITION DID NOT WEAKEN DURING FIGHTING AND HAS REMAINED VERY STRONG. AS OF JUNE 15, 1977, CENTRAL BANK HAD TOTAL OF LL 5.111 BILLION (\$1.704 BILLION) IN RESERVES, OF WHICH ABOUT \$420 MILLION WAS GOLD VALUED AT \$42 PER OUNCE, ACCORDING TO FOUAD ABI SALEH, MANAGING DIRECTOR OF INFI BANK. RESERVES WERE BROKEN DOWN BY HIM AS FOLLOWS:

-- LL 2.279 BILLION(\$760 MILLION) TO COVER CURRENCY IN CIRCULATION AT OFFICIAL RATE OF 80 PERCENT;

-- LL 2.832 BILLION (\$944 MILLION) USED PRIMARILY TO MAINTAIN PARITY OF LEBANESE POUND WITH OTHER CURRENCIES.

B. GIVEN ACTUAL EXCHANGE RATES AND MARKET VALUE OF GOLD, HOWEVER, RESERVE COVERAGE OF CURRENCY IS EFFECTIVELY 120 TO 130 PERCENT, ACCORDING TO PIERRE NASRALLAH, SECRETARY GENERAL OF ASSOCIATION OF LEBANESE BANKS.

C. COMMERCIAL BANK DEPOSITS HAVE RISEN TO ABOUT LL 10.0 BILLION (\$3.3 BILLION), AN INCREASE OF ABOUT LL 1.5 BILLION (\$500 MILLION) SINCE JANUARY 17, 1977, ACCORDING TO NEWSPAPER ACCOUNTS. DEPOSITS ARE, HOWEVER, STILL BELOW LEVEL AT END OF 1974 OF LL 11.2 BILLION (\$3.2 BILLION).

5. LACK OF INVESTMENT AND CREDIT.

A. ALTHOUGH COMMERCIAL ACTIVITY HAS PICKED UP, RESERVE POSITION REMAINED STRONG, AND COMMERCIAL BANK DEPOSITS RISEN, THERE HAS BEEN VERY LITTLE INVESTMENT ACTIVITY. BANKS ARE UNWILLING TO TAKE RISKS, DEMAND

CONFIDENTIAL

PAGE 03 BEIRUT 03858 02 OF 04 081418Z

VERY STIFF CREDIT TERMS, AND ARE THEREFORE VERY LIQUID.

B. MINISTER OF INDUSTRY MICHEL DOUMIT SAYS COMMERCIAL BANKS AS WELL AS GOVERNMENT'S NATIONAL BANK OF INDUSTRY AND TOURISM OFTEN DEMAND COLLATERAL WORTH 200 PERCENT OF LOAN, AND MANY BUSINESSMEN CANNOT GET CREDIT THAT WOULD ALLOW THEM TO RESUME PRODUCTION. ASSAD SAWAYA, PRESIDENT OF ASSOCIATION OF LEBANESE BANKS, PUTS COMMERCIAL BANKS' SURPLUS LIQUIDITY AT LL 2.0 BILLION (\$667 MILLION).

C. FURTHERMORE, SUPPLIERS ARE UNWILLING TO EXTEND SHORT OR MEDIUM TERM CREDIT, AND ALMOST ALL COMMERCIAL TRANSACTIONS ARE IN CASH. THIS PLACES SEVERE RESTRAINT ON BUSINESS ACTIVITY.

D. CURRENT ACCOUNT ACTIVITY IN COMMERCIAL BANKS IS NOW AT ABOUT 40 PERCENT OF PRE-WAR LEVEL. WHEREAS BANKS USED TO CLEAR 10,000 TO 15,000 CHECKS PER MONTH, THEY NOW CLEAR 4,000 TO 5,000, ACCORDING TO NASRALLAH.

6. OTHER PROBLEMS.

A. THERE ARE OTHER PROBLEMS. ACCORDING TO GUNTHER NEUBERT, MANAGING DIRECTOR OF CHASE MANHATTAN BANK, INFLATION FOR FIRST SIX MONTHS OF 1976 WAS AT ANNUAL RATE OF 24 TO 36 PERCENT. PETER DE ROOS, MANAGING DIRECTOR OF AL MISHRAK BANK, SAYS HE HAS "HEARD FIGURES" FOR ANNUAL RATE OF BETWEEN 20 TO 50 PERCENT FOR FIRST SIX MONTHS THIS YEAR. ACCORDING TO SABBAAH AL HAJJ, VICE CHAIRMAN OF COUNCIL OF RECONSTRUCTION AND DEVELOPMENT, ANNUAL RATE OF INFLATION BASED ONLY UPON FOOD, TRANSPORTATION, AND CLOTHING COSTS WAS 25 TO 30 PERCENT FOR FIRST SIX MONTHS THIS YEAR.

B. AL HAJJ GUESSES THAT THERE ARE ABOUT 150,000 UN-

CONFIDENTIAL

PAGE 04 BEIRUT 03858 02 OF 04 081418Z

EMPLOYED PERSONS, COMPOSING 30 PERCENT OF WORK FORCE TOTAL-
ING 500,000, PALESTINIANS AND OTHER FOREIGNERS EXCLUDED.
HE AND OTHERS NOTE THAT MOST UNEMPLOYED ARE MOSLEMS AND
THAT UNDEREMPLOYMENT IS WIDESPREAD IN PUBLIC AND PRIVATE
SECTORS.

C. MAURICE KHOURY, CHAIRMAN OF BOARD OF ASSOCIATED
BUSINESS CONSULTANTS, LEBANON'S LEADING MARKET RESEARCH
FIRM, SAYS THAT HIS SCIENTIFICALLY DESIGNED STUDIES PUT
PRESENT NUMBER OF UNEMPLOYED AT 94,000, OR 11.8 PERCENT
OF WORK FORCE TOTALING 794,000, INCLUDING PALESTINIANS
AND OTHER FOREIGNERS. BY COMPARISON, HE CALCULATES UN-
EMPLOYMENT AT END OF 1974 AS 54,000, OR 6.6 PERCENT OF
WORK FORCE TOTALING 817,000, INCLUDING PALESTINIANS AND
OTHER FOREIGNERS.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BEIRUT 03858 03 OF 04 081406Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 DODE-00 IGA-02 AGRE-00 FAA-00 DOTE-00 /092 W
-----032609 081455Z /47

R 081238Z AUG 77
FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 4828
INFO AMEMBASSY AMMAN
AMEMBASSY ATHENS
AMEMBASSY CAIRO
AMEMBASSY DAMASCUS
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TEL AVIV
USDOC WASHDC

C O N F I D E N T I A L SECTION 3 OF 4 BEIRUT 3858

D. AHMAD LADQI, AN INSPECTOR FOR COUNCIL OF TOURISM,
THINKS THAT 1,000,000 LEBANESE LEFT COUNTRY DURING
FIGHTING, AND THAT 600,000 HAVE RETURNED. ACCORDING TO

STUDY OF WORLD LEBANESE CULTURE UNION, 626,000 LEFT AND 353,000 RETURNED BETWEEN APRIL 20, 1975, AND MARCH 20, 1977.

E. AL HAJJ PUTS PRESENT IN-COUNTRY RESIDENT POPULATION AT 2.1 MILLION, PALESTINIANS AND OTHER FOREIGNERS EXCLUDED, COMPARED TO 2,400,000 AT END OF 1974. KHOURY PUTS PRESENT IN-COUNTRY RESIDENT POPULATION AT 3.0 MILLION. 2.5 MILLION LEBANESE, PLUS 500,000 PALESTINIANS AND OTHER FOREIGNERS. HE COMPARES THIS TO 3.2 MILLION IN 1974: 2.6 MILLION LEBANESE, PLUS 600,000 PALESTINIANS AND OTHER
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BEIRUT 03858 03 OF 04 081406Z

FOREIGNERS.

F. IN ADDITION, ALMOST ALL 400,000 SYRIAN AND EGYPTIAN WORKERS, WHO MADE UP BULK OF UNSKILLED CONSTRUCTION AND AGRICULTURAL LABOR, LEFT DURING FIGHTING, AND ONLY ABOUT 40,000 HAVE RETURNED, ACCORDING TO AL HAJJ.

7. PUBLIC FACILITIES.

A. PHONE, TELECOMMUNICATIONS, WATER AND ELECTRIC SYSTEMS ARE WORKING, BUT REPAIRS ARE NEEDED. TAXIS ARE OPERATING IN BEIRUT, BUT VERY FEW BUSES HAVE RESUMED SERVICE.

B. ABOUT 178,000 METRIC TONS OF CARGO WERE HANDLED BY BEIRUT PORT IN JUNE THIS YEAR, ABOUT 48 PERCENT OF VOLUME HANDLED IN JUNE 1974. RATE OF TRANSSHIPMENT, ACCORDING TO DE ROOS, IS NOW ABOUT 60 PERCENT, COMPARABLE TO RATE BEFORE FIGHTING. TWENTY OF 25 FOREIGN AIRLINES WHICH LANDED AT BEIRUT AIRPORT BEFORE THE WAR HAVE RESUMED SERVICE (ONLY PAN AM, SAS, GULF AIR, GHANA AIRWAYS, AND TURKISH AIRLINES HAVE NOT DONE SO).

8. FOREIGN AID.

A. PROSPECTS FOR FINANCING OF WELL-DEFINED PROJECTS IN PUBLIC SECTOR APPEAR GOOD, AND FOLLOWING LOANS ARE FORTHCOMING, ACCORDING TO GOL:

-- FIVE MILLION KUWAITI DINARS (\$17.4 MILLION) FROM ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT (AFESD), AND THREE MILLION KUWAITI DINARS (\$10.5 MILLION) FROM ABU DHABI FUND FOR BEIRUT PORT;
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BEIRUT 03858 03 OF 04 081406Z

-- SIX MILLION KUWAITI DINARS (\$20.9 MILLION) FROM AFESD, AND TWO MILLION KUWAITI DINARS (\$7.0 MILLION) FROM ABU DHABI FUND FOR COUNTRY'S ELECTRIC SYSTEM;

-- \$50 MILLION FROM WORLD BANK FOR BEIRUT'S PORT, WATER SYSTEM AND SANITATION FACILITIES, AS WELL AS FOR TELECOMMUNICATIONS AND FOR STUDIES OF URBAN RECONSTRUCTION AND REGIONAL DEVELOPMENT; (WORLD BANK HAS ALSO AGREED TO USE UNDISBURSED BALANCE OF \$28 MILLION FROM PREVIOUS LOAN TO COMPLETE PORTIONS OF TABARJA-TRIPOLI HIGHWAY.)

- 30 MILLION ACCOUNT UNITS (\$36 MILLION) FROM EUROPEAN ECONOMIC COMMUNITY FOR MEDIUM TERM PROJECTS, PRIMARILY INDUSTRIAL DEVELOPMENT ACTIVITIES IN MOSLEM AREAS OF COUNTRY;

-- 20 MILLION MARKS (\$8.8 MILLION) FROM WEST GERMANY FOR BEIRUT WATER PROJECTS.

B. LEBANESE OFFICIALS HAVE ALSO VOICED HOPE FOR MASSIVE LOANS FROM ARAB STATES AT CONCESSIONAL TERMS TO REFLOAT PRIVATE SECTOR. BUT SAUDI ARABIA AND KUWAIT, THE TWO KEY STATES, HAVE SHOWN LITTLE INCLINATION TO PROVIDE THIS TYPE OF ASSISTANCE, AND PROSPECTS ARE PROBLEMATIC AT BEST.

9. GOVERNMENT ACTIVITY.

A. GOL HAS REGISTERED SOME ACCOMPLISHMENTS: IT HAS ESTABLISHED:

-- COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION TO OVERSEE RECONSTRUCTION ACTIVITY;

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 BEIRUT 03858 03 OF 04 081406Z

-- INSTITUTION TO PROVIDE INVESTORS WITH INSURANCE AGAINST NON-COMMERCIAL RISKS, INCLUDING WAR;

-- HOUSING BANK, PROGRAM FOR HOME RECONSTRUCTION AND REPAIR, AND AGRICULTURAL DEVELOPMENT BANK;

-- LAWS AND REGULATIONS REORGANIZING RELATIONS BETWEEN LANDLORDS AND TENANTS, EMPLOYEES AND EMPLOYERS, BANKS AND DEBTORS;

-- "BANKING FREE ZONE" SYSTEM, WHICH EXEMPTS DEPOSITS
OF NON-RESIDENTS FROM ALL TAXES.

B. IN ADDITION, MINISTRY OF FINANCE HAS BEEN COL-
LECTING TAXES SINCE MARCH 1977. CUSTOMS DUTIES, TRA-
DITIONALLY LEBANON'S PRINCIPAL SOURCE OF TAX REVENUES,
ARE NOW IN EXCESS OF LL ONE MILLION (\$337,000) PER DAY,
ABOUT SAME RATE AS IN 1974, ACCORDING TO OUGHOURLIAN.
NEVERTHELESS, CURRENT RATE REPRESENTS DECREASE IN REAL
VALUE COLLECTED, SINCE THERE HAS BEEN CONSIDERABLE
INFLATION OVER LAST TWO YEARS.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BEIRUT 03858 04 OF 04 081426Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 DODE-00 IGA-02 AGRE-00 FAA-00 DOTE-00 /092 W
-----032891 081453Z /47

R 081238Z AUG 77
FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 4829
INFO AMEMBASSY AMMAN
AMEMBASSY ATHENS
AMEMBASSY CAIRO
AMEMBASSY DAMASCUS
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TEL AVIV
USDOC WASHDC

C O N F I D E N T I A L SECTION 4 OF 4 BEIRUT 3858

10. BUDGET.

A. CURRENT EXPENSES SECTION OF 1977 BUDGET PROVIDES
FOR EXPENDITURES OF LL 1.27 BILLION (\$423 MILLION), AS
COMPARED TO LL 1.15 BILLION (\$383 MILLION) IN 1974.
FINANCE MINISTER RAPHAEL TOLD PRESS MAY 16 THAT GOL
ANTICIPATED REVENUES IN 1977 OF LL ONE BILLION (\$333 MILLION),
WITH LL 270 MILLION (\$90 MILLION) DEFICIT TO BE FINANCED

BY ISSUING TREASURY BONDS AND BORROWING.

B. GOL HAS NOT YET APPROVED KEY SECOND SECTION OF BUDGET COVERING CAPITAL EXPENDITURES, WHICH WILL INCREASE DEFICIT. GOL HAS, HOWEVER, AUTHORIZED COUNCIL OF RECONSTRUCTION AND DEVELOPMENT (CDR) TO BORROW LL 300 MILLION
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BEIRUT 03858 04 OF 04 081426Z

(\$100 MILLION) PER YEAR IN GOVERNMENT GUARANTEED FUNDS OVER NEXT THREE YEARS WITHOUT PERMISSION OF PARLIAMENT. AFTER THREE YEARS, CDR WILL HAVE AUTHORITY TO BORROW EACH YEAR -- WITH GOVERNMENT GUARANTEE AND WITHOUT GOING TO PARLIAMENT -- AMOUNT EQUAL TO 15 PERCENT OF TOTAL GOVERNMENT BUDGET.

11. FAILURE TO TAKE RISKS.

A. GOL HAS SO FAR FAILED TO DEVELOP COMPREHENSIVE RECONSTRUCTION STRATEGY AND HAS BEEN RELUCTANT TO TAKE FINANCIAL RISKS NECESSARY TO HELP PRIVATE SECTOR. NATIONAL BANK FOR TOURISM AND DEVELOPMENT, FOR EXAMPLE, HAS LENT OUT ONLY LL 12 MILLION OF (\$4 MILLION) OF LL 75 MILLION (\$25 MILLION) AVAILABLE AS CREDITS FOR BUSINESSMEN TO RESTORE CURRENT ASSETS.

B. GOVERNMENT INACTIVITY, IN PART, RESULTS FOR TIMIDITY ON PART OF LEBANESE LEADERS. AT SAME TIME, EVERY DECISION IS FRAUGHT WITH POLITICAL AND CONFESSIONAL CONSEQUENCES, AND APPARENTLY MOST SIMPLE ECONOMIC ACT CAN OFTEN BE VERY DIFFICULT POLITICALLY.

12. PROSPECTS.

A. ON ONE HAND, RENEWED COMMERCIAL ACTIVITY AND INCREASED DOMESTIC TRADE DEMONSTRATE IMPORTANT PROGRESS, GIVEN FACT THAT MOST MAJOR FIGHTING STOPPED ONLY EIGHT MONTHS AGO. ON OTHER HAND, CAUTIOUSNESS OF GOVERNMENT AND LACK OF INVESTMENT ACTIVITY SUGGEST SERIOUS PROBLEMS.

B. NEVERTHELESS, IT IS PROBABLY BOTH UNREALISTIC AND UNNECESSARY TO COUNT ON GOVERNMENT TO BE MAIN AGENT FOR
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BEIRUT 03858 04 OF 04 081426Z

ECONOMIC RECOVERY. LEBANON HAS STRONG LAISSEZ-FAIRE TRADITION. PRIME MINISTER AL HOSS HAS ACKNOWLEDGED THAT GOL HAS NOT MOVED AS FAST AS IT MIGHT, BUT POINTS

OUT PRIVATELY THAT GOL WAS "NOT DESIGNED" TO INTERVENE IN ECONOMY AND "MESSES UP" WHEN IT DOES. THUS, LEBANON IS UNLIKELY TO EVER IMPLEMENT A COMPREHENSIVE RECONSTRUCTION PLAN.

C. LACK OF INVESTMENT RESULTS IN PART FROM REFUSAL OF SOME BUSINESSMEN TO COMMIT MONEY UNLESS GOL DECLARES MORATORIUM ON THEIR DEBTS TO COMMERCIAL BANKS AND PAYS WAR COMPENSATION FOR DAMAGES. GOL HAS MADE PLAIN, HOWEVER, THAT IT WILL NOT CANCEL DEBTS OR PAY WAR COMPENSATION.

D. MORE IMPORTANTLY, LACK OF INVESTMENT ACTIVITY RESULTS FROM LACK OF CONFIDENCE IN FUTURE OF LEBANESE ECONOMY. ONE COMMON THESIS IS THAT FUNDAMENTAL POLITICAL SOLUTION IS NECESSARY TO RESTORE CONFIDENCE. WE ARE SKEPTICAL OF THIS ARGUMENT AND BELIEVE SECURITY IS MORE IMPORTANT THAN POLITICAL SOLUTION, ALTHOUGH THE TWO ARE RELATED. LEBANESE HAVE DONE BUSINESS AND DONE IT WELL IN MILIEU OF CONSIDERABLE POLITICAL UNCERTAINTY SINCE COUNTRY'S INDEPENDENCE, PROVIDED THAT THEY HAD REASONABLE ASSURANCE OF FREEDOM FROM VIOLENCE.

E. IN SUM, WE THINK THAT INDIVIDUAL, NOT CENTRAL, INITIATIVE IS LIKELY TO BE MAIN CATALYST FOR FURTHER ECONOMIC GROWTH. IF BUSINESSMEN COME TO REALIZE THAT GOVERNMENT WILL ADHERE TO ITS POLICY OF NO DEBT MORATORIUMS AND NO WAR COMPENSATION, AND IF COUNTRY ENJOYS RELATIVE SECURITY AND BUSINESSMEN PERCEIVE MORE OF SAME, ECONOMIC ACTIVITY WILL RETURN TO MORE NORMAL LEVELS.

PARKER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GNP, ECONOMIC RECOVERY, GOVERNMENT OVERTHROW, ECONOMIC DATA, POPULATION DATA, CREDIT DATA, INVESTMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 08-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BEIRUT03858
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770284-0877
Format: TEL
From: BEIRUT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770887/aaaacvod.tel
Line Count: 579
Litigation Code IDs:
Litigation Codes:
Litigation History: Hold (001 Tobacco) added on 4/16/2009 3:39:06 PM by WASHDCMcGoldRJ, Hold (001 Tobacco) removed on 4/16/2009 3:45:03 PM by WASHDCMcGoldRJ (Litigation Hold Lifted)
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3adb5160-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 22-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1679572
Secure: OPEN
Status: NATIVE
Subject: SOME THOUGHTS ON LEBANESE ECONOMY
TAGS: EALR, ECON, EFIN, LE
To: STATE
Type: TE
vdkgwkey: odb://SAS/SAS.dbo.SAS_Docs/3adb5160-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

